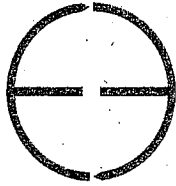


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November 2, 2005

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Re: Climate Action Team Cap and Trade Subgroup: Cap and Trade Program Design Options

Dear Mr. Gibbs and Ms. Tutt:

The California Council for Environmental and Economic Balance ("CCEEB") is a coalition of business, labor and public leaders that strives to advance collaborative strategies that protect public health and the environment while allowing California's economy to grow. Following are CCEEB's comments regarding the "Cap and Trade Program Design Options" proposed by the Climate Action Team Cap and Trade Subgroup. We organized the comments into the following areas:

- 1) Introductory comments;
- 2) Scope;
- 3) Allowance distribution;
- 4) Other program design considerations; and
- 5) Closing comments.

I. INTRODUCTORY COMMENTS

A. Overview

CCEEB recognizes the atmosphere is warming and that a continuing increase in the concentration of greenhouse gases in the atmosphere could pose dangers to the Earth's climate. CCEEB supports finding and taking reasonable and cost-effective steps to avoid serious interference with the climate system.

CCEEB has serious reservations about the time constraints being placed upon the Climate Action Team and stakeholders which act to limit both thorough investigation and open discussion. California's economy and Californian's jobs are too important to place in jeopardy (either from climate change or from approaches to combat climate change). It is important to take the time needed to study carefully any potential solutions and for the public to be given the opportunity to review all of the analytical supporting materials for proposed policies so that the most effective and sensible public policy can be crafted to address this important issue. The desire to "do something" by the end of the year should be tempered by the need to do the right things for the benefit of all Californians. Decision-makers and the public deserve to have all the facts about proposals brought before them, including such basic things as a peer reviewed economic impact analysis of proposed policy options.

B. Cap and Trade Impacts

CCEEB believes it is premature to move to design or adopt a "cap and trade" program to reduce greenhouse gas (GHG) emissions that could accomplish its objectives, not harm the economy and be consistent with other important State policy goals. For example, the draft California Energy Commission Integrated Energy Policy Report calls for action to meet the "state's policy goal of ensuring adequate, affordable, and reliable energy."

CCEEB believes any state level mandatory GHG emission reduction program must meet this important goal. By its very nature, a cap and trade program will likely increase the cost of energy and reduce reliability of energy supply in the state. A GHG cap and trade program will also likely increase the gap between in-state demand for transportation fuel and in-state refining capacity, a concern identified by the California Energy Commission. Apparent fundamental conflicts between State goals such as these need to be resolved thoughtfully.

As stated in our document entitled "Climate Change Principles for Policies and Programs" (attached), CCEEB believes substantial initial progress in meeting the Governor's GHG targets and timetables can be made through voluntary approaches. We believe California should increase its already successful and aggressive efforts to improve energy efficiency in all sectors while new cost-effective GHG emission reduction, capture and storage technologies and solutions are developed. CCEEB respectfully offers the following additional comments:

CRITERIA FOR A CAP AND TRADE PROGRAM

The establishment of a mandated cap and trade program is premature. CCEEB supports voluntary measures that also gain GHG reductions. Potential consequences of a mandatory program must be studied carefully before committing to a policy or program that may turn out to be unworkable or unfeasible. CCEEB believes the following programmatic criteria must be achieved before a recommendation or a decision is made to move ahead with a GHG cap and trade program:

- The program must be comprehensive, with many and diverse participants
- Inventories with credible data from all participants are needed
- Credible analysis of the feasibility and economic impact of a cap and trade program must be done and the results subjected to public hearing
- A robust offset program, accessible to all sectors and sources without regard to geography must be made part of the program design to protect against unforeseen costs while continuing to meet reduction goals

CCEEB also believes there are fundamental problems that need clear and convincing answers before a GHG cap and trade program is considered. These problems include:

- The potential for contract shuffling
- Tracking emissions and monitoring compliance
- The potential for impact on energy reliability
- How to deal with continued power and energy demand growth while capping emissions to supply that growth
- Existing contractual obligations
- Transmission constraints
- How to deal with renewable portfolio standards in other western states

CHARACTERISTICS OF A WORKABLE CAP AND TRADE PROGRAM

CCEEB believes that the subgroup must clearly define the characteristics of successful trading systems before it recommends using a cap and trade approach to meet the GHG targets and timetables. Based upon an initial evaluation of trading programs past and present, we believe these characteristics should include:

- Simplicity in design and operation
- Use of verifiable, credible data
- Emission reduction offsets, accessible to all sectors and sources without regard to geography
- Real price discovery
- High liquidity
- Low transaction costs
- An open and transparent process
- Cost-effective to those who need to comply
- Fungible with other systems and mechanisms

CCEEB believes any "state" cap and trade program should have an "off-ramp" designed to ensure the system doesn't end up threatening California's ability to maintain a healthy economy.

II. SCOPE

CCEEB believes national and international scale action is the only effective way to address the GHG problem. If California decides to do more to address the climate change issue, it should first work to cooperate with the other states of the west in a region wide approach. No matter how large California's economy is, we and the other 13 states of the west have innumerable interdependent economic links that make acting unilaterally to reduce GHG emissions an ineffective and costly policy.

Any cap and trade emission reduction policy should be based upon comprehensive, credible, and science-based data. If a California-only cap and trade program is to be implemented, the same rigorous data standards should be applied along with broad flexibility as to how an entity could best comply with the program. Whatever cap and trade program is adopted, it should be designed to be flexible enough so that it is easily integrated with any national or international program to maximize both market liquidity and cost-effective emissions reduction opportunities and contain linkages to existing, new and emerging trading regimes.

III. ALLOWANCE DISTRIBUTION

There is much debate and literature on the pros and cons of distributing allowances versus auctioning allowances, with each approach resulting in benefits and losses to participants. CCEEB believes that it is premature to conclude one method of allocation is better than another. We suggest the following criteria should be applied to the chosen method of allocation:

- Fair and equitable to all
- No significant impact to the economy
- Cost-effective

IV. OTHER PROGRAM DESIGN CONSIDERATIONS

Since there is a need to identify an organization with responsibility for receiving and verifying greenhouse gas emission reports, CCEEB urges that task be awarded to a centralized state-level entity that will maintain transparency, professional protocols, rules and accountability that are complimentary to any national or international system.

As discussed in Section 1 of these comments, simplicity in design and operation should be a central tenet in the design of any cap and trade system; entities should only have to

interact with a single administrative organization on allocations, emissions reporting, and compliance.

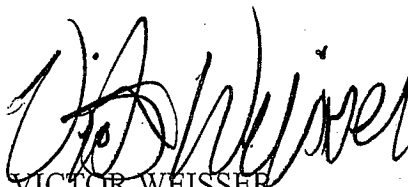
VI. CLOSING COMMENTS

CCEEB believes there is a burden of proof that needs to be met by those proposing new policy mandates. Californians deserve to be told about the costs and benefits of what is being proposed when they are being asked to support new programs financially or in the form of life-style change. CCEEB believes that considerable work- both at the technical and policy levels- still needs to be undertaken, completed and shared before Californians should be asked to embrace a cap and trade program which could have serious impacts on their economy, their jobs and their lives. The Climate Action Team should make clear the specific reductions in the forecasted impacts of climate change on California that will be gained if a cap and trade approach is employed to meet the targets and timetables announced the Governor's June 1 Executive Order. Greenhouse gases are a global challenge because greenhouse gases distribute rapidly around the earth. Reductions in one area can be overwhelmed by increases elsewhere; therefore international and national scale action is the most, indeed, the only effective way to address the problem. While California cannot successfully address this problem alone, it can, as we have indicated earlier in this document, play a constructive role in dealing with the issue.

CCEEB appreciates the Cap and Trade Subgroup and the Climate Action Team's consideration of these comments. CCEEB recognizes this is a challenging new area of work; we look forward to continued discussions with the Climate Action Team, Cap and Trade Subgroup and other stakeholders.

If you have any questions or would like to discuss these comments, please contact me at 415/512-7890.

Sincerely,



VICTOR WEISSNER
President

cc: Honorable Alan C. Lloyd
Climate Action Team Members
Cap and Trade Subgroup Members
Mr. Dennis Albiani
Mr. Dan Skopec
Ms. Catherine Witherspoon
Mr. Jackson R. Gualco
Ms. Kendra Daijogo
Mr. Robert Lucas